

REGISTRATION AUTHORITY – GUIDANCE

Financial statements for ADGM entities that are ‘qualifying free zone persons’ under UAE Corporate Tax Law

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1. INTRODUCTION

Introduction to ADGM

ADGM is an international financial centre established pursuant to Abu Dhabi Law No. (4) of 2013 in the Emirate of Abu Dhabi, United Arab Emirates. With its own civil and commercial laws based on English common law, ADGM offers the local, regional and international business communities a world-class legal system and regulatory regime.

The Registration Authority (“**RA**”) of ADGM is the Registrar of companies within ADGM as well as the commercial and audit regulator of ADGM. The RA is responsible for the licensing, registration and incorporation of entities seeking to establish a presence in ADGM, as well as the monitoring and enforcing of ADGM’s commercial legislation and facilitating government related services.

Guidance overview and application

This guidance is issued under section 936(2) of the Companies Regulations 2020 (“**CR 2020**”) and section 28(1) of the Commercial Licensing Regulations 2015 (“**CLR 2015**”) to elaborate on the preparation and filing of audited financial statements.

For the purposes of this guidance CR 2020, CLR 2015, the Limited Liability Partnership Regulations 2015 and Foundations Regulations 2017 will be collectively referred to as (the “**Regulations**”).

For the purposes of this guidance, private limited companies, public limited companies, unlimited companies, limited liability partnerships, foundations and distributed ledger technology foundations, will be collectively referred to as “**company**” or “**companies**”. Similarly, director, member, partner and councillor will be referred to as an “**officer**”, unless otherwise specified.

This guidance sets out the RA’s position on financial statement (annual accounts) preparation, audit and filing requirements for ADGM companies that are or wish to qualify as Qualifying Free Zone Persons (**QFZPs**).

This guidance should be read in conjunction with ADGM’s commercial legislation and the Registration Authority’s guidance on annual accounts both of which are available from www.adgm.com.

Important information

All companies, including dormant companies, must keep adequate accounting records at their registered office or another suitable location for a minimum of ten years from the date on which they are made. Accounting records must be sufficient to show and explain the company's transactions, disclose with reasonable accuracy, at any time, the financial position, and enable officers to ensure that any accounts required to be prepared comply with the Regulations.

The directors of every company, other than exempt dormant subsidiaries, have a duty to prepare accounts.

The directors of a company must not approve accounts for the purpose under the Regulations unless they are satisfied that they give a fair representation of the assets, liabilities, financial position and profit or loss of the company, and in the case of groups, the company's group accounts, of the undertakings included in the consolidation as a whole.

Unless they qualify for an audit exemption as per CR 2020, all companies are subject to a statutory audit and any such statutory audit must be carried out by an ADGM registered auditor (section 447(5)).

The signed accounts must be filed with the ADGM Registration Authority in respect of every applicable financial year (see Chapter 14 deadlines for filing accounts), unless exempt. The late filing of accounts may result in the company and its officers being liable to penalties.

Your company should take appropriate measures to ensure that where required, accounts are filed on time through the Registration Authority's online registry solution: www.newreg.adgm.com.

Please read CR 2020 to ensure that all requirements in relation to your company's accounting records and annual accounts obligations are complied with.

Note: The Registration Authority cannot give technical or legal advice on your accounts or UAE corporate tax obligations in your circumstances. The Registration Authority can only give general guidance. Where your company's accounts are subject to legal requirements, you may wish to consider consulting a professional if you need technical or legal advice.

2. ADGM ANNUAL ACCOUNTS AND AUDIT REQUIREMENTS

Overview

The directors of every company, other than exempt dormant subsidiaries, must prepare accounts for each financial year. These are called individual accounts. A parent company also has a duty to prepare group accounts (unless it qualifies for an exemption).

Both individual and group accounts (where applicable) must be prepared in accordance with International Accounting Standards (**IAS**).

The ADGM *Companies Regulations (International Accounting Standards) Rules 2015* define IAS as current and future standards and interpretations as issued or adopted by the International Accounting Standards Board (**IASB**).

The IASB sets International Financial Reporting Standards (**IFRS**) accounting standards. IFRS sets out how an entity prepares its financial statements.

Please visit www.ifrs.org to refer to the standards that apply to you as an ADGM company.

The directors of a company must not approve accounts unless they are satisfied that they give a fair representation of the assets, liabilities, financial position and profit or loss of the company and in the case of groups, the company's group accounts, of the undertakings included in the consolidation as a whole.

Audit requirement

CR 2020 states that a company's annual accounts for a financial year must be audited, unless the company is exempt from audit (see section 447).

Audits carried out under the CR 2020 must be carried out by an ADGM registered auditor (see section 1032).

Audit Exemptions

Subject to certain conditions as set out in Part 15 of CR 2020, a company's annual accounts are not required to be audited under ADGM's Regulations if the company qualifies for an audit exemption:

1. Under the small companies' regime,
2. As a subsidiary company whose parent is an ADGM company, or
3. As a dormant company.

Audit Exemption Criteria 1 – Small standalone companies

To qualify as a small company in size, companies, which are not parent companies, must be assessed against the company size thresholds set out in the following table.

Criteria		Small
Turnover		Not more than USD 13.5 million
and		
Number of employees		Not more than 35 employees

Audit Exemption Criteria 2 – Companies that are small parent companies

To qualify as a small parent company, the size of both the parent, as a single entity, and the group headed by it must be considered.

First, to begin you must assess the parent company's size as described above for an individual company based on its own turnover **and** employee numbers.

The second step is assessing the size of its group. A parent company only qualifies as a small company if the group it heads also qualifies as a small group. In assessing the size of the group against the thresholds per section 370 (see table below), the group may use either the net or gross thresholds where applicable.

Criteria		Small
Turnover	Net	Not more than USD 13.5 million
	Gross	Not more than USD 16.2 million
and		
Number of employees		Not more than 35 employees

When assessing the size of the group to determine whether a company qualifies for an audit exemption, it is the size of the entire group that is considered. An entity will need to consider the largest group of which it is a part, including its parents and fellow subsidiaries in addition to the group it heads.

Audit Exemption Criteria 3 – Subsidiary companies

Section 452 of CR 2020 lists the conditions that a subsidiary must meet to take an audit exemption on the basis of being a subsidiary, whose parent is a company registered in ADGM. This includes that the parent must give a guarantee in respect of that financial year, and that the subsidiary is included in the consolidated accounts of the parent submitted to the RA.

Audit Exemption Criteria 4 – Dormancy

Section 455 of CR 2020 lists the conditions a company must meet to take an audit exemption for dormancy. A company is only dormant during a financial period in which it has no significant accounting transactions.

The conditions for audit exemption are that the company:

- As regards its individual accounts for the financial year in question –
 - It has been dormant since its formation, or
 - It has been dormant since the end of the previous financial year and the conditions (in section 455) are met.
- It is not required to prepare group accounts for that year.

A company taking this dormant companies' audit exemption under section 455 will need to include a statement on its balance sheet as required by section 447.

3. UAE FEDERAL CORPORATE TAX

Overview

Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (**Corporate Tax Law**) was issued on 3 October 2022 and was published in Issue #737 of the Official Gazette of the UAE on 10 October 2022.

The Corporate Tax Law provides the legislative basis for imposing a federal tax on corporations and Business profits (**Corporate Tax**) in the UAE (including Free Zones).

The provisions of the Corporate Tax Law apply to Tax Periods commencing on or after 1 June 2023.

Free Zone Corporate Tax Rules

The UAE Corporate Tax Law enables Free Zone companies and branches that meet certain conditions to benefit from a 0% Corporate Tax rate on their Qualifying Income and retain their 0% Corporate Tax rate on Qualifying Income subject to satisfaction of certain conditions under UAE Corporate Tax Law.

Generally, the Corporate Tax Law for Free Zones are intended to provide a 0% Corporate Tax rate on Qualifying Income derived from:

- transactions between Qualifying Free Zone Persons (**QFZPs**) and Free Zone Persons (where the Free Zone Person is the Beneficial Recipient of these transactions and do not relate to Excluded Activities);
- income derived from transactions with a non-Free Zone Person, but only in respect of 'Qualifying Activities' that are not 'Excluded Activities';
- income derived from the ownership or exploitation of certain intellectual property; and
- any other income, provided the *de minimis* requirements are met.

Audit requirement for QFZPs

Article 54(2) of the Corporate Tax Law read with Article 5(1)(b) of Ministerial Decision No. 265 of 2023 and Article 2(2) of Ministerial Decision No. 82 of 2023 for financial year ending before 1 January 2025 or Article 2(1) of Ministerial Decision No. 84 of 2025 in case of financial years commencing on or after 1 January 2025, requires QFZPs to prepare and

maintain audited financial statements to benefit from the 0% rate of corporate tax, regardless of their revenue threshold. This requirement applies to QFZPs even if their revenue is below AED 50 million.

Note: ADGM companies should refer to the Corporate Tax Law and associated guidance published by the UAE Federal Tax Authority for more information on QFZPs, Qualifying Activities, definitions, conditions and criteria. You may wish to consider consulting a professional if you need corporate tax advice.

4. ADGM QFZP AUDIT AND ACCOUNTS FILING REQUIREMENTS

ADGM small or dormant QFZPs

As noted in section 2 of this Guidance, the default starting position under CR 2020 is that all companies must have their accounts audited.

ADGM companies subject to the small companies' regime, subsidiary companies whose parent is an ADGM company and dormant companies, are eligible for an exemption from audit under CR 2020, provided certain conditions are satisfied in full. This includes the condition under section 447(3)(a) that the members of the company have not required the company to obtain an audit.

Further, as noted in section 3 of this Guidance, to avail the 0% rate of corporate tax, QFZPs are required to prepare and maintain audited accounts under the Corporate Tax Law.

Therefore, if an ADGM small company or parent subject to the small companies' regime, subsidiary company whose parent is an ADGM company or dormant company meets the criteria of a QFZP and wishes to qualify for a 0% rate of corporate tax, then regardless of their size, whether they are a subsidiary or their dormancy status, the company will need to maintain audited accounts.

Requirement for ADGM Registered Auditor

The appointment of an auditor must be resolved by the company's directors. Where the directors of a company resolve that audited accounts are required, regardless of the purpose, and they resolve to appoint an auditor, then Part 15 of CR 2020 applies.

The meaning of auditor in respect of an appointment made under Part 15 of CR 2020, is set out in section 1031 of CR 2020 (meaning of "auditor" etc.). Section 1032 of CR 2020 (Eligibility for appointment as an auditor) requires such auditors to be ADGM registered.

Therefore, regardless of the purpose for which an ADGM company has its accounts audited, it **must** engage an **ADGM registered auditor** to carry out such an audit.

Accounts Filing Requirement

All private limited and public limited companies must file their accounts with the Registration Authority, except for Restricted Scope Companies (**RSCs**) and dormant

subsidiaries. Private unlimited companies are not required to file accounts, subject to conditions – see CR 2020.

Ordinarily, a small company (as defined by CR 2020) may file an unaudited balance sheet signed by a director (where eligible for the small company exemption from audit), with the Registrar.

However, as set out in section 2 of this Guidance, CR 2020 and the *ADGM Companies Regulations (International Accounting Standards) Rules 2015*, require an ADGM company's accounts to be prepared in accordance with IFRS.

It should be noted that IFRS does not permit a company to prepare and maintain two separate sets of general-purpose financial statements.

Therefore, where an ADGM small company has prepared general-purpose audited financial statements, those **audited financial statements must be filed with the Registrar**.

Transitional Measures

Responsibility for Compliance

The RA makes it clear that it is the responsibility of each company and its director(s) to understand and comply with their obligations under ADGM's commercial legislation, the UAE Corporate Tax Law and where relevant, the interplay between them, including audit and financial reporting requirements.

No Action Position for Certain Small ADGM Companies

For the **first** fiscal period in scope for UAE Corporate Tax **only**, the RA may adopt a 'no action position' where:

- a) The only reason the company was subjected to an audit was to comply with UAE Corporate Tax requirements; and
- b) The company would have otherwise qualified under the small companies' regime and hence been able to avail the audit exemption.

This approach is intended to ease the compliance burden for small companies during the transition to the UAE's relatively new tax regime.

Previously Filed Accounts

Where an ADGM licensed QFZP has already filed accounts with the RA that do not meet the audit requirements outlined above, the RA may not take enforcement action for this specific non-compliance, provided it falls within the scope of this guidance.

Upcoming Filing Deadline

ADGM licensed QFZPs with accounts due to be filed by 30 September 2025 must make every effort to ensure their filings comply with the above requirements under both ADGM's commercial legislation and UAE Corporate Tax Law.

Firms may need to consider whether they qualify for and should apply for an account filing extension from the Registration Authority, if necessary.

Limitations of the No Action Position

Nothing in the approach described above prevents the RA from returning accounts as defective in relation to other accounts and audit requirements not referred to in this Guidance. The RA reserves the right to take enforcement action against a company and its directors for any accounts and audit non-compliance in relation to requirements not referred to in this Guidance.

Nothing in the RA's approach described above relates to, covers any approach or action that may be taken by the FTA, nor binds the FTA, in relation to a company's filing obligations with the FTA.

5. ADDITIONAL RESOURCES

A. Annual Accounts Guidance

For guidance about the accounts' obligations for ADGM companies, please access the Annual Accounts Guidance here:

<https://www.adgm.com/documents/legal-framework/guidance-and-policy/ra/guidance-for-registered-entities/ra-annual-accounts-guidance-v10-09092022.pdf>

B. RA Public Register of Auditors

ADGM licensed persons must use an ADGM registered Auditor for a statutory audit of their annual accounts. The list of ADGM Registered Auditors (firms) and Registered Audit Principals (individuals), can be accessed here:

<https://www.adgm.com/operating-in-adgm/auditors/find-an-auditor>

C. Late Filings to the Registrar

The RA has a statutory duty to maintain the ADGM register of companies. To ensure its accuracy and completeness, there are deadlines for submitting filings to the Registrar, and penalties for late filings (or failure to file).

Further information, guidance and FAQs on the RA's approach to penalties for late filing penalties, including how to appeal a penalty that has been incorrectly issued and what happens if late filing penalties are not paid can be found here:

[Late Filings to the Registrar](#)

DISCLAIMER

This guidance is a non-binding indicative guidance and should be read together with the relevant legislation, in particular ADGM's Companies Regulations 2020 and Commercial Licensing Regulations 2015, and any other relevant regulations and enabling rules, which may change over time without notice.

Information in this guidance is not to be deemed, considered, or relied upon as legal advice and should not be treated as a substitute for specific advice concerning any individual situation.

Any action taken upon the information provided in this guidance is strictly at your own risk and the RA will not be liable for any losses and damages in connection with the use of or reliance on information provided in this guidance. The RA makes no representations as to the accuracy, completeness, correctness, or suitability of any information provided in this guidance.